

Trade updates

BP Canadian Core Plus Balanced (Capital Markets) – Blueprint

July 9, 2024

RECENT TRADES

New Buy	-
Increase Weight	BMO Long Corporate Bond Index ETF (ZLC), BMO Short Federal Bond Index ETF (ZFS), BMO Mid-Term US IG Corp Bond Hedged to CAD Index ETF (ZMU)
Decrease Weight	BMO US TIPS Index ETF (Hedged Units) (TIPS.F)
Full Sell	-

PORTFOLIO MANAGERS

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RATIONALE

While 2024 has had a volatile start to the year with interest rate expectations moving significantly. Rate cut expectations were continuously pushed further out into the second half of 2024 as inflation proved to be stickier than expected. Canada and the US expectations began to diverge with Canada seemingly doing a better job of cooling inflation, than our neighbours south of the border, who's economy continued to show robust growth and little signs of weakness. The market began pricing in a significant divergence in policy in the spring of 2024.

In June, the BoC became the first of the G7 countries to cut interest rates. The market is pricing in another two interest rate cuts for the remainder of 2024. The cutting cycle in Canada has begun, while the Fed continues to sit on the sidelines, with few expectations of near-term moves. The US continues to be concerned about inflation as it ran hot for much of 2024. That being said, May's CPI print was cooler than expectations and has calmed the market on further igniting inflation concerns. The market is pricing in 1-2 cuts for the Fed in 2024 – with these being pushed later in the year due to the upcoming US election.

The portfolio manager believes that, while inflation is still a valid concern, that the US holding rates higher for

longer will be able to effectively cool inflation. As such, the useful life of utilizing US TIPS within a portfolio context has little near term benefit. The portfolio manager has decided to remove US TIPS exposure – selling BMO US TIPS INDEX ETF - HEDGED UNITS (TIPS.F) and adding duration through Canadian long corporate bonds exposure (BMO LONG CORPORATE BOND INDEX ETF (ZLC)) and mid term US Investment Grade Bond exposure (BMO MID-TERM US IG CORPORATE BOND HEDGED TO CAD INDEX ETF (ZMU)).

The cost for inflation protection is too high relative to the benefit and with inflation breakevens continuing to come in, it is the portfolio manager’s belief that inflation will be effectively controlled by the Fed moving forward.

US 1 Year Inflation Breakevens



Source: Bloomberg, as of July 9, 2024.

The portfolio is currently positioned at a neutral benchmark duration (vs the 50/50 short mid benchmark), yet is utilizing a barbell strategy which should benefit from a falling interest rate environment, in both Canada and the US. The portfolio manager is adding corporate bond exposure (~+6%) as interest rates fall, this should help to

loosen financial conditions and help corporate bonds outperform. As well, the portfolio continues to generate a yield that is premium to the benchmark, which should help stabilize returns during periods of volatility.

Overall, the portfolio manager believes that these trades position the portfolio well for the period ahead.

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